

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



**FISCAL NOTE**

**HB 1912 - SB 2602**

March 17, 2016

**SUMMARY OF BILL:** Reduces from five percent to one percent the penalty for each month of underpayment of a quarterly estimated franchise and excise (F&E) tax payment. Reduces the maximum of such penalty that can be assessed from 25 percent to 12 percent.

**ESTIMATED FISCAL IMPACT:**

**Decrease State Revenue – \$9,491,300/FY17-18  
\$11,484,000/FY18-19 and Subsequent Years**

Assumptions:

- According to the Department of Revenue (DOR), the average F&E tax penalty collections over the last three years were approximately \$17,400,000. This number is assumed to remain constant into perpetuity under current law.
- The effective date of this bill is January 1, 2017. For taxpayers with tax years beginning on January 1, 2017, the F&E tax return is due on April 15, 2018. Penalty and interest for underpayments of quarterly estimated tax payments are not assessed until the return is filed. As a result, the first year impacted by this bill will be FY17-18.
- Reducing the underpayment penalty for quarterly estimated F&E tax payments by 80 percent  $[(5 - 1) / 5]$  and reducing the maximum F&E penalty rate by 52 percent  $[(25 - 12) / 25]$  is expected to reduce F&E penalty payments significantly.
- Based on information provided by DOR, reducing the penalty rates is estimated to result in a decrease in F&E tax collections of approximately \$9,491,300 in FY17-18 and \$11,484,000 in FY18-19 and subsequent years.
- Any increase in state expenditures for the DOR to accomplish the requirements of the proposed legislation will be not significant and can be accommodated within existing resources of the Department without an increased appropriation or reduced reversion.

**CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in dark ink that reads "Krista M. Lee". The signature is written in a cursive, flowing style.

Krista M. Lee, Executive Director

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